

Financial Report

*of*

Philip Morris & Co. Ltd.,

Incorporated



March 31, 1943

1002330827

## DIRECTORS

J. E. ARCHBELL	A. E. LYON
GEO. P. BRAUBURGER	H. E. RIDDELL
O. H. CHALKLEY	K. H. ROCKEY
L. G. HANSON	W. B. RYAN, JR.

J. J. SWITZER

## OFFICERS

O. H. CHALKLEY.....	<i>President</i>
A. E. LYON.....	<i>First Vice-President</i>
W. C. FOLEY.....	<i>Vice-President</i>
T. F. GANNON.....	<i>Vice-President</i>
W. H. HATCHER.....	<i>Vice-President</i>
W. E. LIEBETRAU.....	<i>Vice-President</i>
J. J. SWITZER.....	<i>Vice-President</i>
L. G. HANSON.....	<i>Secretary-Treasurer</i>
W. S. ROULHAC.....	<i>Assistant Treasurer</i>
L. C. METZGER.....	<i>Assistant Secretary</i>

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New York, N. Y.

June 22, 1943.

*To the Stockholders of*

**PHILIP MORRIS & CO. LTD., INCORPORATED:**

The Balance Sheet of your Company as of March 31, 1943, and its Income and Surplus Statements for the fiscal year ended on that date, are submitted herewith. Owing to the length of time required under present conditions for us to receive the audited accounts of our English subsidiary, Philip Morris & Company, Limited, and the fact that the inclusion of those accounts would make no significant change in the net results shown, the appended statements reflect only the operations of the Virginia corporation and are not on a consolidated basis, as heretofore.

Net earnings for the year were \$6,930,933. as compared with net earnings of \$7,784,135. (unconsolidated) for the previous fiscal year. Despite an increase in dollar volume of sales of, approximately, 25%, we were unable to offset the effect of increased costs due principally to higher leaf tobacco prices, and the increase in Federal taxes on income. Possible increases in the prices chargeable for cigarettes and tobaccos have been under discussion for a considerable period of time. Any increases depend on action by the Office of Price Administration and we do not venture to predict what action, if any, may be taken by that agency.

Dividends of \$4.50 per share were declared on the Common Stock, as well as the required amounts on the Cumulative Preferred Stock, 4¼% Series and 4½% Series.

As previously reported in my letter, dated June 22, 1942, addressed to the stockholders and which accompanied the Financial Report for the fiscal year ended March 31, 1942, the Company, during May 1942 successfully consummated the sale of \$6,000,000. principal amount of Twenty Year 3% Debentures, due May 1, 1962, and of 49,666 shares of Cumulative Preferred Stock, 4½% Series. The proceeds therefrom, amounting to \$10,936,311. after underwriting commissions, were deposited to the credit of the Company; and bank loans outstanding amounting to \$8,000,000. were paid. The balance of the proceeds, less related expenses, was added to the general working capital of your Company.

Leaf tobacco of the 1942 crop commanded extremely high prices and it was necessary for your Company to borrow from banks to the extent of \$12,000,000. to finance the purchase of its requirements from that crop. During March, 1943, the sale of \$6,000,000. principal amount of Twenty Year 3% Debentures, due March 1, 1963, and 105,176 shares of Common Stock was successfully consummated. The proceeds therefrom, amounting to \$12,496,295. after underwriting commissions, were deposited to the credit of the Company, and bank loans outstanding amounting to \$12,000,000. were paid. The balance of the proceeds, less related expenses, was added to the general working capital of your Company.

PHILIP MORRIS Cigarettes are your Company's principal product. Amongst the other brands manufactured by it are MARLBORO Cigarettes, ENGLISH OVALS Cigarettes and REVELATION and BOND STREET Smoking Tobaccos. Your support of these products is solicited both on the basis of their intrinsic merit and because your help in this way constitutes a valuable aid to the continued growth of the business.

Faithfully yours,  
O. H. CHALKLEY,  
President.

PHILIP MORRIS & Co.  
(Incorporated)  
BALANCE SHEET

ASSETS		
Demand deposits in banks and cash on hand.....		\$ 3,175,093.12
Accounts receivable:		
Customers.....	\$ 8,329,811.59	
Others.....	450,566.01	
	<hr/>	8,780,377.60
Less, Allowances for discounts and doubtful accounts.....	560,999.90	8,219,377.70
Inventories of leaf tobacco (including imported leaf in bond subject to duty), cigarettes and smoking tobacco in process, manufactured stock and other materials and supplies, at average cost.....		70,569,577.78
Cash in sinking fund held by trustee for redemption of of Twenty Year 3% Debentures on May 1, 1943.....		102,000.00
Total current assets.....		<hr/> 82,066,048.60
Investments, at average cost (at market quotations, \$997,074).....		1,474,489.34
Prepaid expenses and deferred charges to operations.....		738,533.76
Advances to supplier.....		406,250.00
Investment in wholly owned English subsidiary, at cost...		235,965.31
Other investments, at cost.....		10,800.00
Post-war credit of excess profits tax.....		370,000.00
Fixed assets, at cost:		
Land.....	118,998.13	
Buildings, machinery and equip- ment.....	\$ 5,465,880.92	
Less, Allowance for depreciation..	1,862,075.93	3,603,804.99
Good will, trade-marks and brands, at cost.....		50,000.00
		<hr/> \$89,074,890.13

NOTES

- The Cumulative Preferred Stock, 4 1/4% Series, is redeemable at any time, at \$105 per share if redeemed on or before April 1, 1944, and thereafter at diminishing amounts (not less than \$102.50 per share), plus accrued dividends in all cases. The Cumulative Preferred Stock, 4 1/2% Series, is redeemable at any time at \$107 per share if redeemed on or before April 1, 1945, and thereafter at diminishing amounts (not less than \$104 per share), plus accrued dividends in all cases. Holders of shares of these series are entitled to \$100 per share plus accrued dividends upon involuntary liquidation.  
Under the terms of the Cumulative Preferred Stocks, the company is required to set aside in a sinking fund, within 80 days after the end of each fiscal year, certain amounts to be used for redemption purposes or it may use preferred stock in treasury for that purpose. The amount to be so set aside on or prior to June 19, 1943, will be \$208,054.
- At March 31, 1943 the company had instructed certain companies, acting as its agents, to purchase leaf tobacco for it in foreign countries, the aggregate cost of which tobacco was reported to be approximately \$3,500,000.

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# LTD., INCORPORATED

(in Virginia)

MARCH 31, 1943

## LIABILITIES

Accounts payable:		
Trade creditors	\$ 2,546,024.09	
Dividends payable:		
On Cumulative Preferred Stock, payable May 1, 1943	\$ 212,589.33	
On Common Stock, payable April 15, 1943	2,248,157.25	2,460,746.58
Others	120,261.80	\$ 5,127,032.47
Twenty Year 3% Debentures to be redeemed, or for which provision for redemption is to be made, within one year		300,000.00
Provision for Federal taxes on income		7,916,664.86
Provision for sundry taxes, additional compensation, storage, etc.		1,773,937.59
Total current liabilities		15,117,634.92
Twenty Year 3% Debentures:		
Due May 1, 1962	6,000,000.00	
Due March 1, 1963	6,000,000.00	
	12,000,000.00	
Less, To be redeemed, or for which provision for redemption is to be made, within one year	300,000.00	11,700,000.00

## CAPITAL

Capital stock:		
Cumulative Preferred Stock, par value \$100 per share:		
Authorized 200,000 shares (Note 1)		
Issued and outstanding:		
4 1/4% Series, 147,501 shares	14,750,100.00	
4 1/2% Series, 49,666 shares	4,966,600.00	19,716,700.00
Common Stock, par value \$10 per share:		
Authorized 1,000,000 shares		
Issued and outstanding, 999,207 shares of which 276,000 shares were issued for \$4 a share	8,336,070.00	
	28,052,770.00	
Surplus:		
Capital	15,739,645.75	
Earned, of which approximately \$11,000,000 is not available for dividends under terms of issue of Twenty Year 3% Debentures	18,465,872.96	34,205,518.71
		62,258,288.71
Less, Cumulative Preferred Stock, 4 1/4% Series in treasury, 10 shares at cost	1,033.50	62,257,255.21
		\$89,074,890.13

exclusive of transportation costs. This amount is not reflected in inventories or liabilities in the balance sheet. With the exception that insurance against land war risk is not available, the company believes itself adequately insured against losses to this tobacco while in transit.

- The company may be subject to the renegotiation provision of the War Profits Control Act with respect to sales made to certain departments of the Federal Government.

On June 16, 1943 the War Department New York Quartermaster Price Adjustment District Office requested data to be used for the consideration of renegotiation.

- Contingent Liability: Suit has been instituted by certain minority stockholders against the present and certain former officers and directors. While this suit is for the benefit of the company it may be liable to the officers and directors under Section 61-a of the General Corporation Law of the State of New York and under Article V of the By-laws of the company which provide for the indemnification of officers and directors for their reasonable expenses including attorneys' fees.

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STATEMENT OF INCOME  
for the year ended March 31, 1943

Net sales.....		\$141,046,615.11
Cost of sales.....		113,891,922.66
		<hr/>
Gross profit from operations.....		27,154,692.45
Shipping, selling, general and administrative expenses....		12,419,558.66
		<hr/>
Net profit from operations.....		14,735,133.79
Add:		
Dividends received.....	\$ 79,801.16	
Other income.....	103,152.17	182,953.33
		<hr/>
		14,918,087.12
Deduct:		
Interest expense.....	258,544.43	
Provision for additional compensation to officers and employees, in accordance with authoriza- tion of stockholders at meeting of July 20, 1937	242,589.28	
Other deductions.....	13,678.90	514,812.61
		<hr/>
Net income, before provision for federal taxes on income.....		14,403,274.51
Provision for federal taxes on income:		
Income tax.....	4,134,249.27	
Excess profits tax (after deducting \$370,000 post-war credit).....	3,338,091.44	7,472,340.71
		<hr/>
Net income for the year.....		\$ 6,930,933.80

NOTE: Provision for depreciation amounted to approximately \$342,000 in the year ended March 31, 1943.

STATEMENT OF CAPITAL SURPLUS  
for the year ended March 31, 1943

Balance, March 31, 1942.....		\$10,586,079.82
Add:		
Excess of consideration received on issuance of 105,176 shares of Common Stock over the par value thereof.....	\$ 5,469,152.00	
Premium on issuance of 49,666 shares of Cumu- lative Preferred Stock, 4½% Series.....	99,332.00	5,568,484.00
		<hr/>
		16,154,563.82
Deduct, Underwriting commissions and expenses in connection with above issues.....		414,918.07
		<hr/>
Balance, March 31, 1943.....		\$15,739,645.75

STATEMENT OF EARNED SURPLUS  
for the year ended March 31, 1943

Balance, March 31, 1942.....		\$16,629,129.60
Add, Net income for the year ended March 31, 1943..		6,930,933.80
		<hr/> 23,560,063.40
Deduct:		
Cash dividends declared:		
On Cumulative Preferred		
Stock.....	\$ 831,235.19	
On Common Stock.....	4,259,651.25	\$ 5,090,886.44
5 full shares of Common Stock issued in exchange		
for 10 Common Stock Dividend Scrip Certifi-		
cates, Series A, which certificates were issued		
in connection with stock dividend paid		
November 15, 1938, at par value.....		50.00
Premium on shares of Cumulative Preferred Stock,		
4¼% Series, reacquired pursuant to sinking		
fund requirement.....	3,254.00	5,094,190.44
		<hr/> \$18,465,872.96
Balance, March 31, 1943.....		

To the Board of Directors of  
PHILIP MORRIS & CO. LTD., INCORPORATED:

We have examined the balance sheet of PHILIP MORRIS & CO. LTD., INCORPORATED as of March 31, 1943, and the statements of income and surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Confirmations of receivables were not obtainable from United States Government departments, but we followed such other audit procedures as we deemed appropriate in connection with our examination of those receivables. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the company at March 31, 1943, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY  
Certified Public Accountants

New York, May 26, 1943.

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